

CHAPTER 7

CASH MANAGEMENT AND DATA MATCHING (RECONCILIATION)

Essential Questions

What is reconciliation and why is it done?

What is good cash management?

What is the data matching (reconciliation) process?

How often must I reconcile?

What is the “as of” date?

What is the “reconciliation file” and what records does it contain?

General Information

“Reconciliation” in Direct Loans is an essential two-step process for properly managing the Direct Loan Program:

- ❖ **cash management**—as discussed in Chapter 6, schools must report loan origination records and disbursement records (including adjustments and cancellations)—and Option 1 and Option 2 schools must submit promissory notes—on a timely basis to accurately account for all Direct Loan funds received. Some of these procedures will be mentioned again briefly in this chapter to link cash management with data matching.
- ❖ **data matching**—the school must check to make sure all loan data on the school’s system match loan data on the Direct Loan Servicing Center’s system. This is a final “quality assurance” review.

In processing Direct Loans, a school

- ❖ creates and transmits loan origination records
- ❖ prints promissory notes and mails signed documents (Option 1 and Option 2 schools)
- ❖ draws down Direct Loan funds as authorized by signed promissory notes (Option 2 schools)
- ❖ disburses funds to borrowers
- ❖ records and transmits loan disbursement records

The school maintains electronic records of these steps in its own internal system, whether the school uses EDExpress, third-party software, or institutionally developed software. During the processing cycle, the school will follow its regularly scheduled activities, including

- ❖ transmitting loan origination record data to the Direct Loan Servicing Center
- ❖ importing the corresponding acknowledgments from the Servicing Center for each transmission
- ❖ researching and resolving any rejected records
- ❖ resubmitting previously rejected records with the next appropriate file transmission

Cash Management

A school must maintain accurate accounting processes for recording the receipt of Direct Loan funds from the Department of Education and recording the disbursement of funds to borrowers. In addition, the school must maintain a Direct Loan cash balance. At the beginning of a school's processing cycle of Direct Loans, the school's Direct Loan cash balance is zero—no Direct Loan funds have been received and no disbursements have been recorded.

Funds the school receives from the Department are deposited into the school's designated bank account within two to four business days of the funds request date. The school requests funds directly (using either FEDWIRE or ACH) or the Servicing Center requests the funds, depending on the school's participation level:

- ❖ Standard Origination and Option 1 schools receive drawdown funds automatically from the Department of Education's Payment Management System (EDPMS), based on the information provided by the school's submission of loan origination records. These schools must return excess cash in accordance with Title IV cash management regulations.

- ◆ Option 2 schools request drawdowns directly from EDPMS based on the school's analysis of cash needs. Excess cash may be applied to other borrowers in accordance with Title IV cash management regulations and Direct Loan Program regulations.

When a school receives a drawdown of Direct Loan funds, that amount should be reflected in the school's Direct Loan system as an increase in its cash balance. If a school must return Direct Loan funds to the Department of Education, the school's system should reflect that information as a decrease in its Direct Loan cash balance. As a school begins disbursement activity, each disbursement transaction will either decrease an amount from the school's cash balance (for example, when recording an actual disbursement) or add to the school's cash balance (as when an adjustment or cancellation is made to an actual disbursement).

Schools must reconcile their own Direct Loan accounts, including their cash balances, to make sure they account for all drawdowns, disbursements, and returns of cash. This means maintaining accounting records of all loan activities and, *at least monthly*, verifying that all drawdowns have resulted in either a disbursement or a return of unused funds.

In addition, good cash management is indicated by the timely reporting of disbursements, adjustments, and cancellations to the Direct Loan Servicing Center. Timely reporting, according to regulations, means reporting within **30 days** of the date of the loan activity. For example, if \$2,000 is disbursed to a borrower on July 1, the school is required to report this to the Servicing Center no later than July 31. The Department of Education monitors this activity and notifies schools that are not reporting in a timely manner.

Data Matching

Data matching—that is, performing a match between school records and Direct Loan Servicing Center records—ensures the integrity of the loan data that schools send to the Servicing Center. Matching is performed to make sure schools have submitted to the Servicing Center all records necessary to “book” the loan and to make sure the Servicing Center has received all records schools have transmitted.

As mentioned in Chapter 6, a loan is booked when

- ◆ the Servicing Center has received and accepted a loan origination record
- ◆ a borrower has signed a promissory note, and the Servicing Center has accepted the note

- ◆ a first disbursement has been made to the borrower and the disbursement record has been transmitted to, and accepted by, the Servicing Center

Loan record data on the Direct Loan Servicing Center's system must be an exact match of the disbursement activity, as recorded in the school's system for each loan the school has originated. If there is a mismatch of loan records, the school must research the reason for the discrepancy and then correct it by taking the necessary steps to fix the mismatched data. Validating data on both systems through loan records matching affords the borrower maximum protection and ensures accurate loan amounts and repayment periods.

The school initiates data matching activity. The school is responsible for submitting a reconciliation file to the Direct Loan Servicing Center **at least once a month**. The reconciliation file includes

- ◆ loan detail records
- ◆ cash detail records
- ◆ a summary record that includes totals of each detail record type

The records submitted include all previously unmatched records through the "as of" date—a date the school chooses that represents the day of each month for which records will be included in the reconciliation file. The date remains constant for each month.

- ◆ For example, if a school chooses the 15th of the month as its "as of" date, its "as of" dates will be January 15, February 15, March 15, etc.

The Direct Loan Servicing Center receives the reconciliation file from the school and attempts to match each loan and cash detail record with the records on the Servicing Center's system. After processing the reconciliation file, the Servicing Center returns it to the school and, for each record, indicates whether or not the record matches the Servicing Center's records. For each unmatched record, the Servicing Center provides a reject code specifying the reason for the rejected data. The school must research each unmatched item and correct it, working with the Servicing Center. The next file submitted will include all previously unmatched records.

The Loan Detail Record

A “reconciliation file” consists of loan detail records for all disbursement activity that has occurred on loans the school has created. Disbursement activity includes

- ◆ initial or subsequent actual disbursements
- ◆ cancellations to actual disbursements
- ◆ adjustments to actual disbursements

Disbursement records are submitted to the Direct Loan Servicing Center continuously throughout the month according to a school’s established Direct Loan processing schedule. When a school transmits a reconciliation file to the Servicing Center, the file contains details of the school’s loan transactions, which are then matched against the corresponding disbursement records the school has submitted to the Servicing Center. If the Servicing Center has received and accepted the disbursement records, each loan detail record will match against the record in the Servicing Center’s system as being reconciled. If the Servicing Center has no disbursement record in its system to match the loan detail record against, the loan detail will be considered unreconciled, and the school must determine why the loan detail does not match.

The Cash Detail Record

The “reconciliation file” also includes cash detail records. While a school maintains its own internal system of accounting for the receipt and disbursement of Direct Loan funds, as well as any returns of cash, schools must transmit this information electronically to the Servicing Center to ensure institutional accountability for these funds.

When a school transmits a reconciliation file to the Servicing Center, the cash detail records will be matched against drawdown activity maintained by EDPMS and will also be matched against returns of cash that the school has submitted (via checks or electronic wire transfers) and that the Servicing Center has received. This match will indicate whether the school received its drawdown of Direct Loan funds and if the Servicing Center received the check or wire transfer from the school, as documented by the school’s records. If cash detail records the school has sent match drawdown and cash return records the Servicing Center maintains, these records will be considered reconciled. Any unmatched records will be marked as unreconciled, and the school must research why cash detail records do not reconcile and resolve the problem, working with the Servicing Center. After the school has made the appropriate corrections, it must submit unmatched records with the next reconciliation file.